

EXHIBIT 2

***EXPERT OPINION REGARDING
THE ECONOMIC VIABILITY OF
CHANNEL 11, INTERNATIONAL FALLS, MN,
IF OPERATED AS A FULL-SERVICE TV STATION
FROM CHISHOLM, MN***

**PREPARED FOR
AKIN, GUMP, STRAUSS, HAUER & FELD, L.L.P.**

#4052072





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September 21, 2000

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Re: Viability of Channel 11, International Falls, MN, if operated as a full-service television station from Chisholm, MN

Dear Mr. Davidson:

Pursuant to your request, BIA Consulting, Inc. has prepared a business valuation for the purpose of forming an expert opinion regarding the economic viability of Channel 11, International Falls, MN, if operated as a full-service television station from Chisholm, MN. Note that the valuation of Channel 11 is hypothetical (because as of the date of this report the station is unbuilt and not assigned to Chisholm, MN) and prospective (because we assume for the purposes of this report that Channel 11 will commence broadcast operations on September 1, 2001). It is our understanding that this report is to be submitted to the Federal Communications Commission (FCC) as part of a petition for rulemaking to change the community of license of Channel 11, International Falls, MN. Any other use of this report may be invalid.

Based on the analyses and assumptions detailed in the following report, in our opinion, assuming the station begins broadcast operations on September 1, 2001 from Chisholm, MN, Channel 11 cannot be supported as a full-service television station. This conclusion was arrived at by estimating the likely audience and revenue shares the station could achieve at maturity and the corresponding operating expenses that would be required to operate a full-service station in Chisholm. It should be noted that our projections incorporate aggressive assumptions with regard to the station's ability to generate revenues and conservative assumptions in the area of operating expenses. Despite an attempt to produce the highest reasonable level of revenues and the lowest reasonable level of operating expenses, positive operating cash flows are not achieved over a seven-plus year projection term. Therefore, it is our contention that Channel 11, Chisholm, MN, cannot be supported as a full-service television station and that it is highly unlikely that a buyer can be found to operate the station on such a basis.

BIA has relied on a number of sources for information used in this report, including: BIA Publications, Inc.'s *Investing in Television 2000*, MEDIA Access Pro *Television Analyzer*, and *Television Coverage Maps*; Market Statistics *1999 Survey of Buying Power* and *Demographics USA*; Minnesota State Demographic Center - County Estimates; 1999 A.C. Nielsen Company's *Nielsen Station Index* for the Duluth, MN-Superior, WI DMA; NAB/BCFM's *1999 Television Financial Report* and *1999 Television Market Analysis*; Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation: 2000 Yearbook*; and *Value Line Investment Survey*. In addition, we have been provided with a predicted coverage map for Channel 11. Lauren Butler of BIA Consulting, Inc. conducted an interview with Mr. Bob Wilmers, President and General Manager of KBJR-TV, Superior, Wisconsin, to discuss the Duluth-Superior television market, the subject station, and television competition in the market.

Rights and Limiting Conditions

It should be noted that the report that follows determining the hypothetical, prospective economic viability of Channel 11 as a full-service television station operated from Chisholm, MN has been prepared exclusively for Akin, Gump, Strauss, Hauer & Feld. This report is not to be reproduced in whole or in part for any reason without its express written consent and that of BIA Consulting, Inc. The appraiser assumes no responsibility for matters of a legal nature affecting the property appraised. The appraiser also assumed the property to be free and clear of all liens and other encumbrances.

The information provided by the client and Mr. Wilmers was assumed to be accurate and no steps were taken to independently verify the material. Included in the fair market valuation are projections. Projections and assumptions are inherently subject to uncertainty and may be greatly influenced by events which are unforeseeable or otherwise differ or vary from reasonable expectations. Consequently, the station's operating results may vary from the projections set forth in the valuation, commensurately affecting the value of the station.

The appraisal of Channel 11 is hypothetical because as of the date of this report the station is unbuilt and not assigned to Chisholm, MN. The appraisal is prospective because we assume for the purposes of this report that Channel 11 will commence broadcast operations on September 1, 2001. Therefore, the valuation has been performed as of September 1, 2001.

This prospective appraisal is valid only for the appraisal date or dates specified herein and only for the appraisal purpose specified herein. The client warrants that any reports, analyses, or other documents prepared for it by the appraiser will be used only in compliance with all applicable laws and regulations.

Statement of Appraisers' Independence

The statements of fact contained in this report are, to the best of the appraisers' knowledge, true and correct.

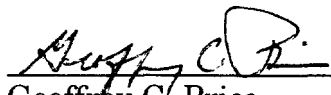
The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions and conclusions.

BIA Consulting, Inc. has no present or prospective interest in the properties that are the subject of this report, and has no personal interest or bias with respect to the parties involved.

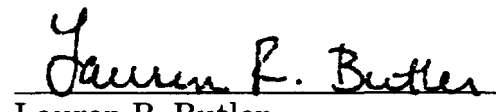
BIA Consulting, Inc.'s compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

BIA Consulting, Inc.'s analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). No one provided significant professional assistance to the persons signing this report.

BIA CONSULTING, INC.



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September 21, 2000*

STUDY TO DETERMINE THE ECONOMIC VIABILITY OF CHANNEL 11, IF OPERATED AS A FULL-SERVICE STATION FROM CHISHOLM, MN

Market Overview

Channel 11 is currently assigned to International Falls, MN, located on the northern border of the state of Minnesota and in the northernmost reaches of the Duluth, MN-Superior, WI DMA. The sole applicant for Channel 11 is Channel 11 License, Inc. We have assumed for the purposes of this report that Channel 11 will begin operating on September 1, 2001.

The Duluth-Superior DMA, which is ranked 133rd out of 210 markets rated by Nielsen Media Research, consists of fourteen counties: seven in Minnesota, six in Wisconsin, and one in Michigan (see Figure 1). The DMA had an estimated cable penetration rate of 51% as of the May 2000 ratings survey, which is substantially lower than the current national average of 68% (Table 1).

The population of the Duluth-Superior television market, as shown in Table 2, was estimated at 442,900 as of December 31, 1998. The market's population is expected to grow at a compound annual rate of 0.2% from December 1998 to December 2003, which lags the national average growth rate of 0.9% over the same period. With 194,300 residents, St. Louis County, Minnesota (home to Duluth) accounts for 44% of the DMA's total population. The remaining population in the DMA is fairly well spread out, with no other county housing more than 10% of the population of the DMA. St. Louis County is also the geographically largest county in the DMA, having a land area two times or more as large as any other county in the DMA. St. Louis County

spans an area about 100 miles from north to south, with Duluth located at the southern edge of the county.

In Table 3, the market's population is broken down by gender and nationality. The Duluth-Superior market is characterized by a very small minority population, with the total percentage of African American, Asian, and Spanish-speaking persons at 1.8%, compared to 28.2% for the national average. Tables 4 and 5 show that the age distribution in the Duluth-Superior DMA skews somewhat older than the national average. 41.7% of the population in the DMA is aged 45+, compared to 36.0% for the nation.

Table 6 reviews current and projected levels of household income in the Duluth-Superior market. The DMA supports significantly fewer households with annual income exceeding \$50,000 (19.9%) than the national average (32.7%). Table 7 indicates effective buying income ("EBI", a measure of disposable income) registered \$33,577 per household as of December 1998, which is about 25% lower than the national average (\$45,504). The market's EBI is forecast to grow at a compound annual rate of 3.9% from year-end 1998 through year-end 2003, slightly lower than the national average rate of 4.5% for the same period. As shown in Table 8, the DMA's retail sales are forecast to expand at a compound annual rate of 4.1% through 2003, which is also slightly lower than the forecast national growth rate of 4.5%.

Unadjusted unemployment rates in the Duluth-Superior Metropolitan Statistical Area (MSA) have remained fairly steady between 3.0% and 4.7% over the July 1999-June 2000 period, as reported by the U.S. Bureau of Labor Statistics. These rates are very similar to the national unadjusted unemployment rates, which ranged between 3.7% and 4.5% over the same period, respectively.

Competitive Overview

Table 9 lists each of the television stations licensed to the Duluth-Superior DMA. Table 10 presents the most recent eight sweep daypart share summary for Duluth-Superior. Table 11 presents the competitive programming schedules of the commercial stations in the market. There are four commercial VHF stations and one commercial UHF station currently assigned to the DMA. Note that one of the VHF stations is a satellite of the market's VHF ABC affiliate. Group owners in the market include Benedek Broadcasting, Granite Broadcasting ("Granite") and Hubbard Broadcasting.

There is also one application pending for Channel 27 in Duluth, MN; one application pending for Channel 24 in Ironwood, MI (located about 100 miles east of Duluth); one application pending for Channel 11 in International Falls, MN; and an allocation available for Channel 40, Superior, WI. Based on our research, neither Channel 27, Duluth, nor Channel 24, Ironwood, is expected to come on the air in the next several years. The Ironwood station is located so far from the main metro area of the DMA and in such a sparsely populated area that it is not anticipated that this station will come on the air, even as a satellite of a Duluth-Superior station. With regard to Channel 27, Duluth, because a Fox affiliate recently came on the air in the market and due to the relatively low level of television revenues available in the Duluth-Superior DMA, this reduces the chances of another commercial station commencing operations in the market in the near term.

As of the May 2000 ratings sweep, four commercial television stations in the Duluth-Superior DMA earned measurable total day audience shares. A review of the DMA's peer markets ranked 123-143 reveals that there are an average of 3.5 viable stations in these markets. Based on this, television competition in the Duluth-Superior DMA is about average relative to its peer markets.

Ratings Analysis

As shown in Table 10, the total day ratings leader in the Duluth-Superior DMA is WDIO-TV, the ABC affiliate on Channel 10. The station is owned by Hubbard Broadcasting, Inc., which also operates satellite station WIRT, Channel 13, Hibbing. WIRT rebroadcasts 100% of WDIO-TV's programming. WDIO-TV's audience shares include its satellite, WIRT (hereafter referred to as WDIO+). WDIO+ has ranked first in the market for total day share in six of the eight most recent ratings sweeps. WDIO+'s local commercial audience share¹ (LCS) is 34.5% averaged over the past eight ratings books. Despite the fact that WDIO+ ranks highest for total day audience, it does not rank first in the market in certain dayparts. For instance, although WDIO+ leads the market from Noon-3PM (airing ABC network soap operas) with a 44.4% LCS, it falls to third place from 3-5PM, with a 24.8% LCS (when it broadcasts *Hollywood Squares*, *Judge Joe Brown*, and *Rosie O'Donnell*). WDIO+ increases its standing to second place from 5-7PM, but its shares in local news at 5PM and 6PM lag KBJR-TV by a wide margin. During Prime Time WDIO+ jumps back to first place and remains there with a strong lead in the 10PM local newscast. BIA Research, Inc.'s *Investing in Television 2000, 2nd Edition* (IIT) estimates WDIO+'s 1999 gross revenues at \$7.9 million.

The second and third places in the market for total day share are in a tight race, with KBJR-TV winning out over KDLH in the three most recent sweeps and just edging out KDLH in the eight-sweep average (31.7% versus 31.6%, respectively). KBJR-TV is the market's NBC affiliate broadcasting on Channel 6 and owned by Granite Broadcasting Corp. As mentioned previously, KBJR-TV ranks number one from 3-5PM and 5-7PM and wins by a wide margin during the 5PM and 6PM local news. KBJR-TV also leads the market from 10:30PM-Midnight, with *The Tonight Show* and *Conan O'Brien*. IIT estimates KBJR-TV's 1999 gross revenues at \$5.3 million.

¹ A station's local commercial share represents its total day share divided by the sum of the total day shares for all commercial stations licensed to compete in the market.

KDLH is the market's CBS affiliate operating on Channel 3 and owned by Benedek Broadcasting Corp. KDLH has ranked third in the market for total day share in each of the past three sweeps, but has tied for first in two of the past eight sweeps and ranked second twice. KDLH's local newscasts are the weakest in the market, ranking third at 6AM, 6PM and 10PM historically. Unlike WDIO-TV and KBJR-TV, KDLH does not air a 5PM local newscast.

Finally, the Fox affiliate operating on Channel 21 is the most recent entrant to the television market. KQDS was purchased by Curtis Squire, Inc. in 1999. While the station has been on the air since 1995, it broadcast home shopping programming until September 1999, after Curtis Squire upgraded the technical facility and contracted for the Fox affiliation. As a result, KQDS did not begin earning measurable shares of audience until November 1999. Since that time KQDS's unadjusted total day shares have fluctuated between 2% and 4%. The station has not consistently earned audience shares before Noon, and has a spotty record from Noon-5PM. After 5PM, however, KQDS's shares strengthen, with unadjusted shares from 5PM-Midnight between 3% and 4% in the two most recent sweeps. IIT estimates KQDS's 1999 gross revenues at only \$500,000. Given that the station did not earn a measurable share of audience until November 1999, we would expect its revenue performance to increase in 2000.

The principal in Curtis Squire, Inc. is also the principal in Red River Broadcast Corp., a company which owns the Fox affiliate in the Fargo-Valley City, ND DMA. It is our understanding that KQDS's master control operations are performed from Red River's Fargo station (KVRR). As a result, all of KQDS's programs and commercials are relayed to KQDS from KVRR via T1 lines. KQDS's staff is said to total only about 12, significantly smaller than the staffs of the big three affiliates in the Duluth-Superior market.

Station Overview - Channel 11

There is currently one applicant for Channel 11, International Falls, MN: Channel 11 License, Inc. International Falls is located about 140 air miles northwest of Duluth. According to information provided by the client, following the grant of the construction permit for Channel 11, Channel 11 License, Inc. intends to file a petition for rulemaking proposing to relocate the station's transmitter site south to Meadow Brook Ridge (near Chisholm). Figure 2 presents the city grade, Grade A and Grade B predicted coverage contours of Channel 11 from the Meadow Brook Ridge tower site, as prepared by Hammett & Edison, Inc. The predicted contours were prepared assuming Channel 11 operates with 316 kilowatts (kW) effective radiated power (ERP) from 666 feet above average terrain (HAAT). As can be seen, from this site Channel 11 places a Grade B signal over International Falls, but not over Duluth or Superior. According to a population count study prepared by Hammett & Edison, Inc., Channel 11's predicted Grade B area at the Meadow Brook Ridge site is estimated to reach 122,669 persons (based on 1990 Census data).

Counties included within Channel 11's Grade B coverage area (at the Meadow Brook Ridge site) include portions of Koochiching, Itasca, St. Louis and Lake counties, Minnesota (however, only a minute portion of Lake County is included within Channel 11's Grade B contour). Referring back to Table 2, these four counties were estimated to have a total population of 264,800 as of year-end 1998. However, according to county population estimates made by the State Demographic Center at Minnesota Planning, population in Duluth city and Duluth towns is estimated to comprise over 43% of the total St. Louis County population (or 86,400 in 1999). Upon an examination of Channel 11's predicted contour and population estimates made by the State Demographic Center at Minnesota Planning, we predict Channel 11's Grade B contour will reach less than half of the population of St. Louis County. The estimated population count of 122,669 within Channel 11's Grade B contour represents about 28% of the population of the Duluth-Superior DMA. Note that population in the Duluth-Superior increased at a compound annual rate of only 0.3% between 1990 and 1998. Therefore, the portion of the DMA covered by Channel 11's predicted contour is

essentially constant at 28% between 1990 and 1998. With fourteen counties in the DMA, Channel 11 is expected to reach portions of only four counties.

Figure 3 presents the predicted Grade B coverage contours for each of the four full-service commercial television stations in the Duluth-Superior DMA, WIRT (the satellite of WDIO-TV licensed to Hibbing), and Channel 11 from the Meadow Brook Ridge site. As can be seen, Channel 11's Grade B contour is oriented significantly farther to the north than the full-service stations in the market and even farther north than WIRT.

It was reported to the appraiser that Channel 11 will not be able to deliver an adequate over-the-air signal to cable headends in the cities of Duluth or Superior, or Aitkin, Carlton, Douglas, Washburn, Bayfield, or Iron Counties. The Channel 11 signal will be required to be received via an antenna and a high-powered preamplifier, then retransmitted via two microwave hops in order to reach the Duluth-Superior cable headend. Estimates by BIA's Broadcast Engineer, Sid Shumate, range between about \$150,000 and \$200,000 for such a system. This estimate does not include the cost of delivering a signal to the headends in Aitkin, Carlton, Douglas, Washburn, Bayfield, or Iron Counties. A significant capital investment would be required to do so.

Analysis Determining the Economic Viability of Channel 11

We are using the discounted cash flow (DCF) approach as the primary valuation technique to determine Channel 11's potential viability as a full-service television station operated from Chisholm, MN. The DCF analysis is a comprehensive technique requiring the projection of future cash flows and the restatement of these cash flows into their present value equivalent via a discount rate. In order to make the operating cash flow projections, we began with actual and projected market revenues. Assumptions were then made about the station's future revenue share. Future operating expenses were then projected and operating profits derived.

The following section of the report details the prospective, hypothetical fair market valuation of Channel 11 in an asset sale, as a going concern, as of September 1, 2001, assuming that the station operates from the Meadow Brook Ridge site. Tables 12 and 13 present the projection of revenues and operating expenses for Channel 11. Table 14 presents operating norms for stations similar to Channel 11, assuming it operates as a full-service station.

Projection of Revenues

Duluth-Superior is the 140th ranked television market in the nation for 1999 gross television market revenues, with an estimated \$19.0 million. Historical gross non-network television market revenues for the Duluth-Superior DMA were obtained from 1999 NAB/BCFM *Television Market Analysis* for the years 1996 through 1998. Granite supplied us with actual 1999 gross market revenues (also compiled by NAB/BCFM). Projected gross non-network market revenues for the years 2000-2008 were estimated by the appraiser after consulting with Granite and examining projections in BIA Research, Inc.'s *Investing in Television 2000* (IIT) and Paul Kagan Associates, Inc.'s *PK B-Stats*, July 15, 2000 edition. Gross non-network television market revenues (gross TV market revenues less network compensation) registered \$15.0 million in 1996, rose by 4.1% in 1997 to \$15.65 million and by 8.1% in 1998 to \$16.9 million. In 1999, gross non-network market revenues declined to \$16.49 million. Much of the decrease can be traced to political revenues, which totaled nearly \$900,000 in 1998 and only \$19,000 in 1999.

We estimate gross non-network market revenues at \$17.8 million in 2000. This includes estimates for both political and Olympics revenues and assumes that national/regional and local advertising dollars will be flat. In future years, Duluth-Superior TV market revenues are projected to increase at a 3.5% compound annual rate of growth, reaching \$21.9 million by the last year of the projection term, 2008 (see Table 12). The 3.5% growth rate was chosen upon a review of IIT's projection of 2.2% between 1999-2003, PK B-Stats' projection of 5.1% between 1999-2004, and a conversation with Granite.

Table 12 also profiles the gross station revenues Channel 11 is forecast to generate over the projection period. In order to determine Channel 11's potential audience share and revenue performance, we considered the average audience shares achieved by the fifth TV station in markets similar in size and composition to Duluth-Superior, the audience share received by WIRT (the satellite of WDIO-TV in the Duluth-Superior market), the number of over-the-air viewers the station is expected to reach, and the likely number of cable subscribers the station would reach.

An analysis of the average local commercial audience share (LCS) achieved by the fifth highest rated station in five-station markets was performed. As of May 2000 there were a total of 27 markets with five television stations receiving consistent, measurable total day shares. (Note: markets in which the fifth station was a satellite or a big-three affiliate were excluded from the analysis. Markets in which the fifth station was a low power television station (LPTV) were included if the LPTV attained competitive shares.)

The average LCS in the most recent four sweeps for the fifth station in the 27 five-station markets is 6.7%. If all disadvantaged signals are excluded (comprising six stations) the average rises to 7.3%. The average LCS for the six disadvantaged signals is 4.6%. Note that the Grade B contour of each of the six stations with disadvantaged signals covers the main city or cities of the respective DMAs. Channel 11's Grade B contour, however, does not reach or even approach Duluth or Superior. As a result, it would probably be unrealistic to expect Channel 11 to achieve an LCS on par with the disadvantaged signals in our five-station study.

As mentioned previously, Channel 11's Grade B signal is predicted to reach nearly 123,000 people. This represents about 28% of the population of the DMA. Assuming the operator of Channel 11 would invest the necessary capital to deliver the signal to the cable headend that serves Duluth and Superior, this would add 24,500 cable subscribers, to increase Channel 11's coverage of the market to about 33%. Even the strongest over-the-air competitors in the DMA do not reach 100% of the population in the market. Our best estimate is that the strongest signals in the Duluth-Superior market reach about 75-80% of the population in the DMA with their Grade B signals

and translators. Therefore, it can be surmised that Channel 11 will be at more than a 50% disadvantage vis-a-vis the other full-service television stations in the market. If we assume that Channel 11 could achieve about half the average share for the fifth station in five-station markets (excluding disadvantaged signals), this would result in a 3.7% LCS projected for Channel 11 at maturity.

Because of its placement on the UHF band, the Fox affiliate competing in the Duluth-Superior DMA has a smaller signal than the other full-service stations in the market. In consultation with Granite, we estimate KQDS's Grade B contour plus translators to reach about 250,000 people. This represents an estimated 75% of the population reached by the big three affiliates (excluding satellite station WIRT). The fourth ranked station in four-station markets achieves an average LCS of about 12%. In the three sweeps in which KQDS has achieved a measurable total day share, its LCS has averaged 5.8%, about half the average. Because KQDS has been on the air as a Fox affiliate for less than a year, it is our expectation that the station's total day share will probably continue to grow over the next couple years.

Satellite station WIRT's Grade B predicted contour is also shown on Figure 3. This station's audience shares are not reported separately from WDIO-TV in the Nielsen Station Index report for Duluth-Superior. However, WDIO-TV's shares are reported individually and WDIO-TV/WIRT's combined shares are also reported. By extracting satellite station's WIRT's audience shares on a total day basis from WDIO-TV/WIRT's combined shares, WIRT has achieved an average LCS of 4.0% over the past four sweeps. In our opinion, one would expect WIRT to achieve a higher LCS than Channel 11 by virtue of the fact that WIRT broadcasts ABC network programming. As the fifth full-service TV station to serve the Duluth-Superior DMA, Channel 11 would not have access to the ABC, CBS, NBC, or Fox affiliations. Channel 11 would most likely affiliate with either the WB or Paramount networks. As an affiliate of the WB or Paramount, we would not expect Channel 11 to achieve an audience share on par with an ABC affiliate.

Referencing what we know to be the average LCS for the fifth-ranked TV station in five-station markets (7.3%, excluding disadvantaged signals), the percent of population and cable subscribers expected to be covered by Channel 11 compared to the other stations in the market, and WIRT's average local commercial share, we believe an LCS of about 3.5% is a reasonable expectation for the station at maturity, assuming the station is a WB or Paramount affiliate. However, we have forecast a more aggressive share of 4.5% at maturity. Given the assumption that Channel 11 will commence broadcast operations on September 1, 2001, we forecast the station to achieve a 4.5% LCS by 2004.

Because it is not likely that Channel 11 will come on the air before September 1, 2001, it will not have the opportunity to be rated in any of the four sweeps comprising the 2001 broadcast year (which spans the November 2000, February, May and July 2001 ratings sweeps). Therefore, no LCS is projected for the station in 2001. We have forecast a power ratio for Channel 11 of 0.85 in 2002, growing to 1.0 by 2004. The fifth station in five-station markets achieves an average power ratio between 0.90 and 0.95. We have projected a higher than average power ratio because Channel 11 is on the VHF band. However, the station's signal is disadvantaged. On balance, we believe a 1.0 power ratio is reasonable and, perhaps, somewhat aggressive. In the September 1-December 31, 2001 period, we have forecast the station to garner \$80,000 in gross revenues (see Table 12). In 2002, station revenues are projected to grow to about \$300,000, and reach \$878,000 by 2005 and \$984,000 by 2008. Over the 2002 - 2008 term, Channel 11 gross revenues are forecast to rise at a 21.8% compound annual growth rate (CAGR).

Projection of Operating Expenses

Projected operating expenses and profits for Channel 11 are detailed in Table 13. The projection of operating costs for Channel 11 references BIA's knowledge of the operating cost levels for television stations in small markets, norms operating cost levels as detailed in the *1999 NAB/BCFM Television Financial Report* and Granite's knowledge of operating costs for TV stations in the Duluth-Superior DMA.

Operating expenses as shown on Table 13 include Technical, Production, Advertising & Promotion, General & Administrative, and Sales expenses (including local and in-house sales commissions). Operating expenses exclude program payments and agency/rep commissions. Our projection of operating expenses for Channel 11 incorporates an assumption that the station will employ a smaller than average staff. Recall that KQDS employs a staff of about 12 in Duluth, with other staffers employed in Fargo responsible for master control operations. Excluding news staff, KBJR employs about 30 full-time people. For Channel 11, we have estimated a staff of about 15. Note that we consider this to be a conservative estimate as the *Television Financial Report* cites an average of 25 full-time employees for WB affiliates in markets ranked 32+ in the 25th percentile of revenues. (Note: in the 25th percentile gross ad revenues total just under \$1 million.) With a staff of about 15, we estimate Channel 11's operating expenses to total \$800,000 in its first full year of operations, 2002. This includes sales costs forecast at 20% of the station's projected gross revenues. Norms for stations with about \$1 million in gross revenues is 24% of gross revenues.

Table 14 illustrates the NAB norms for WB affiliates in markets ranked 32+. As can be seen, for stations with total gross revenues of about \$1 million, total operating expenses are shown to be over \$2 million. The \$2 million figure includes program costs, which are not included in our \$800,000 operating cost projection for 2002. Program costs are projected separately for Channel 11 at \$200,000 in 2002. This figure was estimated after a discussion with Granite regarding program costs in the Duluth-Superior DMA and a review of program prices by title for various programs currently under contract by the four commercial stations in the market (as supplied by Granite). Upon a review of the program prices being paid in the market, we estimate that as a WB or Paramount affiliate, Channel 11's program payments would conservatively total \$200,000 per annum. Note, this figure is lower than the estimated program payments made by any station in the Duluth-Superior market currently. As a WB or Paramount affiliate, Channel 11 will be required to fill more hours with off-network/first-run programming than any of the big-four affiliates, due to WB/Paramount filling fewer hours with network programming. According to Granite,

Channel 11 would have difficulty gaining access to the most popular off-network and syndicated programs because such programming is currently under contract by the other four stations in the market.

Subtracting the projection of agency/rep commissions, operating expenses and program payments from forecast gross revenues results in operating losses in each year of the projection term. As can be seen from Table 13, the operating losses are reduced from about (\$700,000) in 2002 to about (\$360,000) in 2004. However, in subsequent years, from 2004 through 2008 operating losses are no longer reduced, but remain at about (\$360,000) to (\$380,000) each year.

The operating losses do not include capital expenditures. Such costs would undoubtedly increase Channel 11's losses. Not only would the owner of Channel 11 have to incur the typical capital expenditures to build an analog facility (at a cost estimated to total about \$2 million) and replace/upgrade the station's analog equipment as long as it broadcasts in analog, but conversion to digital broadcast would become necessary after a number of years. Given Duluth-Superior's low cable penetration rate (at 51% as of May 200), it would likely be about ten years before it would be necessary to switch from an analog facility to digital. At that time, however, a significant investment would be required to do so. Estimates by BIA's Broadcast Engineer, Sid Shumate peg the investment at between \$1.1-2.1 million. Given the operating losses projected for Channel 11 as a full-service station and the capital costs necessary to build the analog facility and convert to digital broadcast, it is our opinion that a knowledgeable buyer could not be found for the station.

As operating losses are not reduced in the last four years of the projection term and the losses are significant, we cannot say if cash flows will ever turn positive. Because losses are forecast throughout the projection term, it is pointless to attempt to calculate a discounted cash flow value. A positive value cannot be calculated for Channel 11 as a full-service station as of September 1, 2001. Therefore, it is our opinion that Channel 11 is not economically viable as a full-service station licensed to Chisholm, Minnesota.

The conclusion that Channel 11 cannot be supported as a full-service television station is not surprising given three main factors. First, WIRT is the only station licensed to an area in close proximity to Chisholm. WIRT is operated as a satellite of the market's ABC affiliate and not as a full-service station. If WIRT could be supported as a full-service station in the market, it would probably be a full-service station. The fact that it is a satellite is a very strong indication that a full-service station located so far from the metro area of the DMA cannot be supported.

Second, the Fox affiliate in the market, KQDS, was proposed for sale in late 1998 as part of a group sale with KQDS AM/FM, both licensed to Duluth. The total sales price for the TV station and AM/FM combo was \$5.5 million. At the time the sale was agreed upon, KQDS(TV) had a poor technical facility and no Fox affiliation. There is no published information regarding KQDS(TV)'s revenues at the time of the sale. However, given its inferior technical facility and home shopping format, we estimate the revenues at a negligible amount. KQDS-FM is estimated by BIA's *Investing in Radio 2000* edition to have generated \$725,000 in 1998 gross revenues, while no revenue estimates are available for KQDS(AM). The AM has not garnered a measurable share of listening for the past several years. Given our knowledge of revenue multiples for FM radio stations and the total purchase price paid for KQDS (TV)/AM/FM, we estimate the allocated value to the TV station at no more than about \$3 million. Recall that KQDS is licensed to Duluth, it had the ability to become affiliated with the Fox TV network and its over-the-air signal covered the main metro area of the market (however, the signal was quite small when Curtis Squire purchased the station). If KQDS(TV)'s fair market value as an undeveloped TV station was only \$3 million as recently as late 1998, a TV station in the DMA that does not reach Duluth or Superior could probably be expected to have a much lower value today.

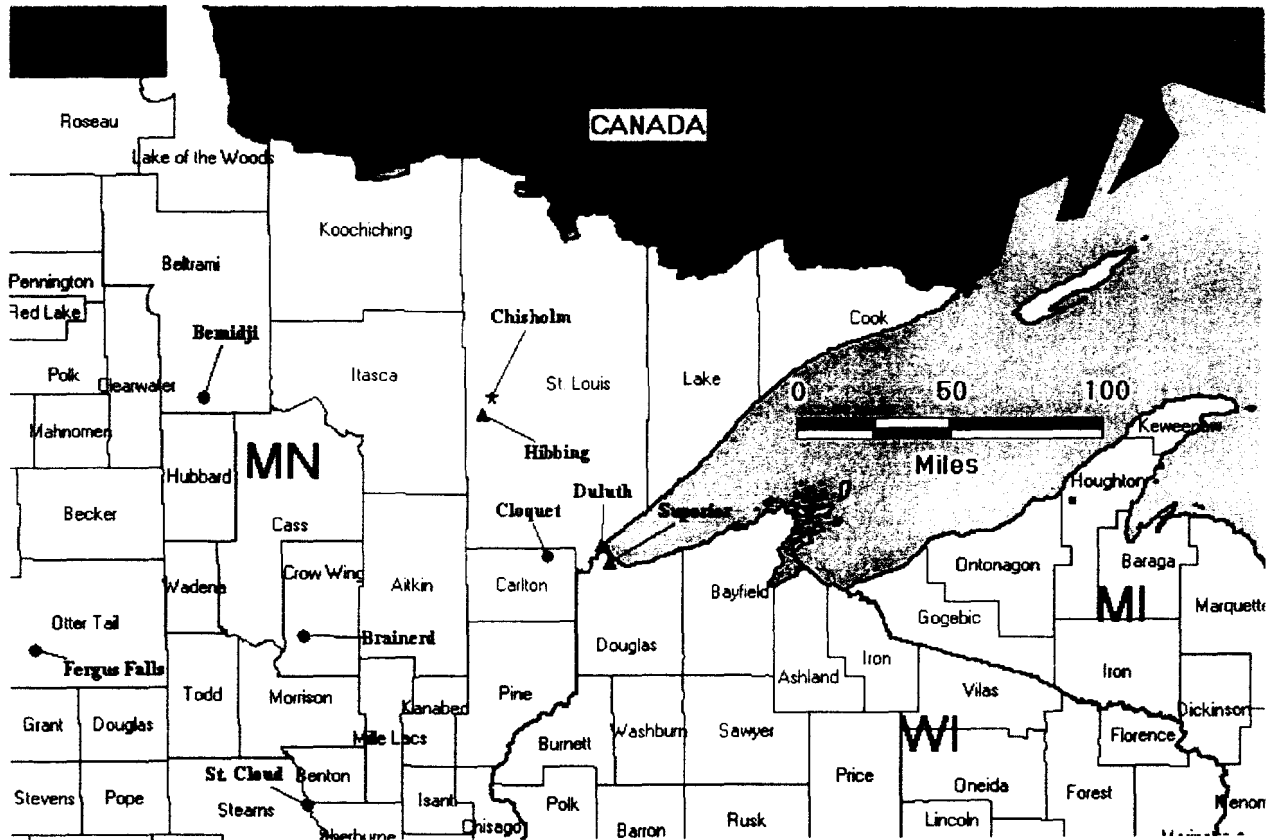
Third, there are only four DMAs ranked 133+ that support more than four full power commercial TV stations. Of those four, two of the markets (Laredo, TX and Palm Springs, CA) support at least one Spanish-language station among the five stations in the market. Markets with large Spanish-speaking populations are known to have a larger than average number of TV stations because of the dual languages spoken in the market. The remaining two markets ranked 133+ supporting more than

four TV stations are Lubbock, TV and Anchorage, AK. The estimated gross TV revenues (including network compensation) are \$27.1 million and \$26.3 million in 2000 in Lubbock and Anchorage, respectively. This compares to about \$20 million estimated for Duluth-Superior in 2000. Aside from Laredo and Palm Springs, there are no markets with less than \$25 million in revenues supporting more than four full power TV stations.

Based on the analyses detailed in this report, we conclude that Channel 11 cannot be supported as a full-service television station licensed to Chisholm, MN.

Figure 1

Duluth-Superior DMA



Television Market counties are shown in white.

- ▲ City of license in the market.
- City with a population of 10,000 or more.